

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

REPORT of MARKET CONDUCT EXAMINATION

OF

A.A.R.P. INSURANCE PROGRAM

(AMERICAN ASSOCIATION OF RETIRED PERSONS)

As of December 31, 1995

Seattle Washington

April 30, 1997

Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Commissioner Senn:

Pursuant to your instructions and in compliance with the statutes of the state of Washington, a market conduct examination has been made of the claim and underwriting files of:

A.A.R.P. Automobile and Homeowners Insurance Program

ITT Hartford Insurance Group

Hartford Plaza

Hartford, Ct. 86115

and this report of examination is respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by James Rigney and Shirley Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the

provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

SCOPE OF EXAMINATION

A prior examination of the AARP (American Association of Retired Persons) Insurance Program was conducted in 1989 for Washington state. That examination was done in conjunction with an examination of the entire ITT Hartford Insurance Group. This examination focused on the AARP Insurance Program only and involved two of the ITT Hartford companies. The two companies involved were Hartford Underwriters Insurance Company and Hartford Insurance Company of the Midwest.

This examination involved claim settlements closed and policies written and covering in the State of Washington between July 1, 1995 and December 31, 1995 and focused on the following:

Complaint Handling Procedures

Rate and Form Filings

Claims Settlement Practices

Cancellations and Declinations

Renewal and Non-Renewal Procedures

Underwriting and Rating Practices

Also of importance were items found to be of concern during the prior examination. The examiners verified what, if any, changes the companies implemented to comply with the instructions and recommendations resulting from the prior examination.

There was one Instruction issued as a result of the prior examination. The companies were instructed to respond to complaint inquiries from the Insurance Commissioner's Office within fifteen business days. The companies are now in compliance with this instruction.

SCOPE OF EXAMINATION, Continued

The examiners also made the following recommendations as a result of the prior examination:

1. The companies should have complaints received in their Seattle office faxed to the appropriate office to eliminate postal service delays between Seattle and Southington.
2. Responses to consumer billing questions should be simplified to help consumers better understand their billings and reduce complaints.

Compliance and any changes made with regard to the prior instruction and recommendations will be discussed in the appropriate sections of this report. The market conduct examination is an examination by exception and any of the companies functions not specifically mentioned may be assumed to be satisfactory.

The examination was performed at the companies Personal Lines Insurance Center located in Southington, Connecticut. Although some companies functions are carried out in other locations, the examiners were given full access to company records, files and computer systems.

HISTORY AND OPERATIONS

In 1984 the ITT Hartford Insurance Group, in conjunction with the American Association of Retired Persons, (AARP), developed an insurance program designed especially for members of AARP. The program is marketed through the Hartford Underwriters Insurance Company and Hartford Insurance Company of the Midwest, which are part of the ITT Hartford Group. The company solicits business through the use of AARP

membership lists. They also advertise in the AARP association magazine and news reports.

Most of the phases of the AARP insurance program are managed by the Personal Lines Insurance Center located in Southington, Connecticut. Some aspects of the program are handled through a regional office, known as the Western Division in San Diego, California. The San Diego office is responsible for both the sales and service to Washington state insureds, as well as several other western states. Washington insureds now have a San Diego address, which reduces mail delays experienced in the past. With the opening of the Western Division regional office the companies hope to provide better service.

The AARP insurance program consists of private passenger auto, homeowners and personal umbrella policies. Special filings were made for this program which is designed to attract members of AARP. The program is offered in all fifty states.

COMPLAINT HANDLING PROCEDURES

The company has a detailed manual regarding the handling of complaints. All complaints are handled by the Consumer Affairs department. They see that all complaints are routed to the appropriate department (e.g. claims, underwriting) for prompt attention. The company strives to resolve all complaints within seven calendar days and all inquiries within ten calendar days.

The company defines a complaint as a concern expressed by the customer or claimant that suggests dissatisfaction with the practices, actions or procedures of the organization. Inquiries are questions or clarifications regarding the practices, actions or procedures of the organization.

Fifteen complaint files were reviewed. All were handled properly and within the required time frame. This was an improvement from the prior examination.

RATE AND FORM FILINGS

The companies belong to or subscribe to various rating services and bureaus applicable to their operations. In Washington state, the companies utilize Insurance Services Office (ISO) and the Washington Surveying and Rating Bureau (WS&RB) as their primary source of information. Rates, rules, policy forms and endorsements are primarily

promulgated by ISO or WS&RB. The companies have developed certain deviations applicable to their unique operations.

Filings are done and records are maintained at the companies' home office located in Hartford, Connecticut. Although the filings are done by the ITT Hartford Group, they are filed specifically for the AARP program.

Rates, rules, policy forms and endorsements were reviewed. From this review, the examiners requested a sample to verify proper filing and approval prior to use in Washington state. All material sampled appeared to be filed and approved prior to use.

CLAIMS SETTLEMENT PRACTICES

The examination of the claims practices included private passenger automobile and homeowner claims. One hundred fifty four files were reviewed. The main areas of review were:

- Settlement of first party automobile total losses
- Timely service (contact) and payments
- Valuation methods (actual cash value, ACV, and replacement cost)
- Application of deductibles
- File documentation

The companies have three claim service centers handling claims for Washington insureds. The companies also utilize independent adjusters as needed. There is a toll free 24 hour telephone number insureds are encouraged to use for loss reporting. This service is provided from the Northeast Personal Lines Claim Service Center in Southington, Connecticut, which handles claims countrywide. When an insured reports a claim via the toll free telephone number, the operator taking the call can confirm coverages for the adjuster prior to the claim being assigned. Since many claims can be settled via telephone, this office handles the majority of claims.

Pacific Northwest Central Recovery Office, located in Seattle, Washington handles subrogation and salvage items for the Pacific Northwest. The Seattle Claims Office handles claims for Washington insureds which require an adjuster to look at the loss and to prepare an estimate of the cost of repairs, or in the case of an automobile loss, to determine if the vehicle is a total loss.

Contact with an insured or claimant was usually made within one to two days of the receipt of notice of loss by the companies. Payment for claims appeared to be prompt once bills or other proofs of loss were received.

CLAIMS SETTLEMENT PRACTICES, Continued

Actual cash value (ACV) appeared to be determined appropriately when a vehicle was found to be a total loss, using an independent firm to assist the adjuster.

In the case of homeowners claims, the ACV appeared to be figured appropriately without excess deductions taken for depreciation.

Two claim files revealed deductibles were charged in error. These files were given to management and checks were issued to reimburse the insureds' deductibles.

The examiners noted five files where an adjuster failed to use the correct insuring company on all of their correspondence.

With the exception of the seven errors noted above, all other claim handling appeared to be in compliance with Washington State statutes. The appendix to this report contains a listing of the seven claim files which contained errors.

CANCELLATIONS, DECLINATIONS AND NON-RENEWALS

Seventy five cancellations, non-renewals and declinations were reviewed. They were examined to ascertain if the companies were in compliance with Washington State statutes.

In all files reviewed the amount of time given on the notice was well within statutory parameters. With the few exceptions noted below, the reason(s) given for the companies' action was acceptable.

When the companies conducts a telephone interview with a prospective insured and decides they are not qualified for the AARP program, they are declined over the telephone. The companies then follow up with a letter to the individual to whom they spoke, reiterating the reason for the declination.

All of the cancellations and non-renewal notices reviewed gave sufficient amount of time on the notice sent. On seven of the notices, in the examiners opinion, the reason given was not in compliance WAC 284-30-570. This was discussed with management and they agreed that there should have been more clarification as to the reason for their action. However, overall there was a vast improvement over the findings in the previous exam.

The appendix to this report contains a listing of notices which did not comply with WAC 284-30-570.

UNDERWRITING AND RATING

New business is handled by a customer service relations representative. When an application is received, it is reviewed and compared to information given at the time of the phone quote if applicable. If there is a discrepancy between what was quoted and what is revealed on the application, the customer is contacted and the situation clarified. The information is then input into the computer and the policy is issued. Since underwriting rules are quite strict, the only time an underwriter would see the application is if there is some aspect of the risk which falls outside of the program guidelines. Less than 10% of the applications received are referred to an underwriter.

Auto, homeowners and dwelling fire policies were reviewed for accuracy in rating. All policies reviewed appeared to be rated in accordance with filed rates.

There was no evidence of discrimination or Ared-lining@ practices in the underwriting files reviewed. Territories and classifications appeared to be used correctly and proper symbols were used for physical damage coverages.

It is the examiners opinion that the underwriting and rating practices of the company are in compliance with Washington State statutes.

ACKNOWLEDGMENT

The examiners wish to express their appreciation for the courtesy and cooperation extended to them by the management and personnel of the AARP Insurance Program during the course of this examination.

APPENDIX

The following is a list of claim files which revealed deductibles were charged in error:

1. 776 AC 31535

2. 776 AC 54089

The following is a list of claim files which did not always use the correct company name:

1. 776 AM 37075

2. 776 KAC 38572

3. 776 AM 28912

4. 776 AC 54089

5. 776 KL 35033

The following is a list of cancellation and non-renewal notices not in compliance with WAC 284-30-570:

1. Reference number, 3603734316

2. Reference number, 2062328851

3. Reference number, 5093972665

4. Reference number, 5099433858

5. Reference number, 5094674440

6. Reference number, 2063644544

7. Reference number, 3602750965